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Ecuador

Exporter Guide

Annual

2001

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Report Highlights:
In the fourth quarter of 2000, Ecuador adopted the U.S. Dollar as its official currency, starting a new economic model called "Dollarization". As this new model took full effect, the economy begun to improve, including growing imports. U.S. foods still have great acceptance among the population because of their excellent quality, but sales are being affected by their higher prices when compared to competitors in other countries.

Includes PSD changes: No
Includes Trade Matrix: No
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SECTION I. MARKET OVERVIEW

Ecuador, with its population of 12.6 million (1999), is currently recovering from a disastrous economic crisis during 1999 and part of 2000, which resulted in the collapse of the banking sector and the "dollarization" of the national currency. Since the fourth quarter of 2000, when dollarization took full effect, the economy has begun to improve, including growing imports.

Ecuador's GDP reached $14 billion, representing a slight growth of 1.9% during year 2000. Optimistic projections mention a GDP increase of 3.5% by the end of 2001, which would start a restoration of Ecuador's economy to the level of 1998 when GDP was $19.7 billion. Inflation has decreased from average levels of 11% (monthly basis) during the first quarter of 2000, to 2.5% in December, resulting in an annual cumulative inflation of 91% for 2000. Although dollarization was supposed to reduce inflation, it caused and is expected to continue causing further price increases in local products. Government sources believe that these inflationary effects will be gradually reduced during the first quarter of this year, and it is expected that Ecuador will finish year 2001 with an inflation rate of 25%. We think this is an opportunity for U.S. products to become more price competitive.

Minimum wage is set now at $118, which shows an important growth compared to the lowest $46 reached at the end of 1999. It is estimated that 60% of this income is used for buying food. Imported food is primarily demanded by consumers in middle and high income groups, representing approximately 2.5 million people.

U.S. consumer oriented exports to Ecuador have experienced significant changes in the last three years. While in 1998, food imports from the U.S. reached $26 million, they drastically decreased in 1999 to $11.7 million due to a deep devaluation of former Ecuadorian currency. During the period January-November of 2000, consumer oriented food imports from the U.S. have reached $12 million, and it is estimated that by the end of the year, they reached $13.1 million, a 12% increase over 1999.

Edible fishery product imports exhibit a similar behaviour. While in 1998 imports from the world were $13 million, they decreased to $4 million in 1999. In the same period, U.S. fish & seafood exports remained constant at $1 million. Calendar year 2000 statistics show an expected increase of 13% in U.S. edible fishery exports to Ecuador, to $1.13 million.

Summarizing available trade and demograpfic data, we conclude the following facts:

- Current absolute U.S. market share for consumer oriented products in Ecuador is 16% (year 2000).
- Ecuador's 5 top suppliers of consumer oriented foods in 2000 were: Chile, Colombia, the United States, Mexico, and Venezuela.
- Ecuador's 5 top suppliers of edible fishery products in 1999 were: Colombia, Panama, Chile,

Thailand and Peru. The United States occupied the seventh place in this category.

- Growing presence of female population into the labor market is notably increasing families' revenue, and determining consumption of food out-of-home. Approximately 33% of jobs are occupied by women.

- Working day changes from double to single shifts have increased demand for quality food service during ordinary working days. A significative part of the population are also having lunch away from home during the weekends.

- Predominant young population (42% are between 15 and 39 years old) creates high demand for consumer ready and fast food products.

- Quito, Guayaquil and Cuenca are Ecuador's major urban centers, with around 6 million peolple concentrated in these three main cities.

The table below summarizes key advantages, and challenges facing U.S. products in Ecuador.

ADVANTAGES	CHALLENGES
Dollarization has brought stability to the economy, thus imports are rising again.	Persistent low wage levels determine that most of the population can not buy imported food.
The growing food processing industry demands high quality ingredients not produced locally.	High tariffs for U.S. products make them less competitive by price.
New sanitary legislation has improved the sanitary permit issuance process, making food imports more efficient.	Non-tariff barriers imposed by the Ministry of Agriculture still complicates agricultural imports.
Consumers are increasingly oriented to fast food consumption and supermarket shopping.	Lack of private-funded brand promotional activities makes U.S. products less visible in supermarket shelves.
Ecuadorian emigrants have adopted foreign consumption tendencies, which have been transmitted to their families in Ecuador, creating markets for imported products.	Ecuadorian market size is a constraint for U.S. exporters seeking large volume deals.

Growth of tourism creates outstanding opportunities for the HRI sector.	Violence in neighboring countries such as Colombia could affect the growth of tourism.

SECTION II: EXPORTER BUSINESS TIPS

- Since the import volume that most importers normally handle (especially for food products) is usually small, they must use the services of a consolidator at a U.S. port. Thus, exporters should be in close contact with consolidators and import agents in order to remain informed about their clients' needs in Ecuador.

- Large importers such as supermarket chains and wholesalers buy directly from the manufacturer or producer, while smaller importers work with distributors and representatives.

- It is recommended that exporters deal with local brand representatives who will manage marketing strategies, advertising, promotion, training and market reporting. This will help U.S. exporters to be aware of business opportunities or constraints within the country.

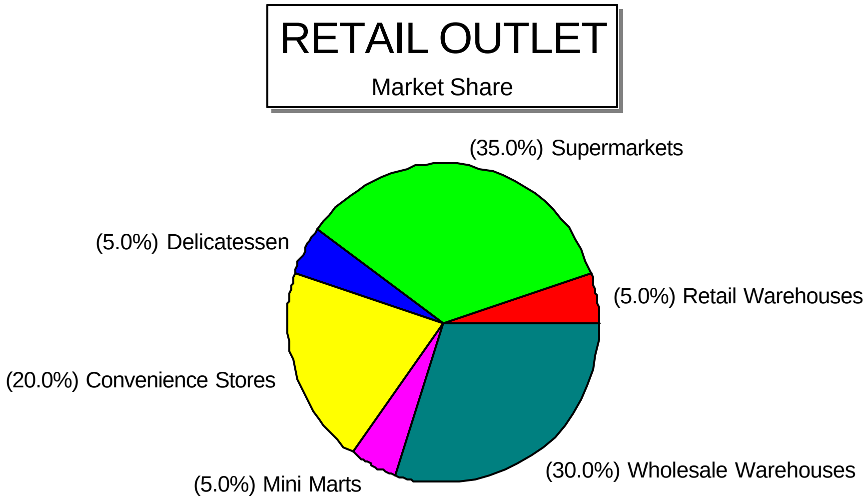
- Importers are required to obtain an import permit (Documento Unico de Importación DUI), which is issued through any bank registered at the Central Bank of Ecuador. Depending on the product, the import also has to be previously authorized by the Ministry of Agriculture or by the Ministry of Health.

- Every processed food or beverage product to be imported must obtain a Sanitary Registration (sanitary permit) which will allow the product's distribution and sale in Ecuador. In December of 2000, the legislation governing sanitary permit matters changed, resulting in a faster, more transparent issuing process. The new laws include acceptance of free sale certificates issued by an authorized institution at eligible foreign countries. The list of countries and institutions is expected to be released soon. FAS/Quito office is closely working to get the FDA included in the list of authorized institutions. Changes include: issuance terms reduced to 30 days, and authorized private laboratories or universities allowed to make the product's analysis. All these changes will turn exporting to Ecuador into an easier business.

- Although Ecuadorians are progressively becoming more nutrition conscious, those who look for healthy and safer food remain as a minority. Popular taste is very spicy and usually accompanied by lots of fried foods. Mayonnaise and ketchup are greatly consumed, and rice is a first necessity food product. Potatoes are usually prepared to accompany lunch or dinner, and salads are much more appreciated nowadays. Fast foods are dominated by roasted chicken, hamburgers, hot dogs and sandwiches; even though, Mexican, Italian and American foods are highly consumed. Ecuadorians drink a lot of soft beverages, fruit juices and beer.

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector:



- Ecuador's retail food outlets are divided into six categories: Supermarkets and commissaries, wholesale warehouses, retail warehouses and small neighborhood stores, convenience stores, delicatessen & specialty food stores, and gas station mini marts.

- In 1998, the size of the retail food sector market was $2 billion. However, during 1999 it contracted by 20%. An important sales growth of 20% has been registered in 2000 by one of the largest supermarket chains in Ecuador. Opinions from food importers reveal that in most cases their sales (thus imports) of food products have increased an average 50% during the second semester of 2000. Supermarket chains expect to increase their sales by at least 30% over 1999, and plan to open 10% more new stores during 2001.

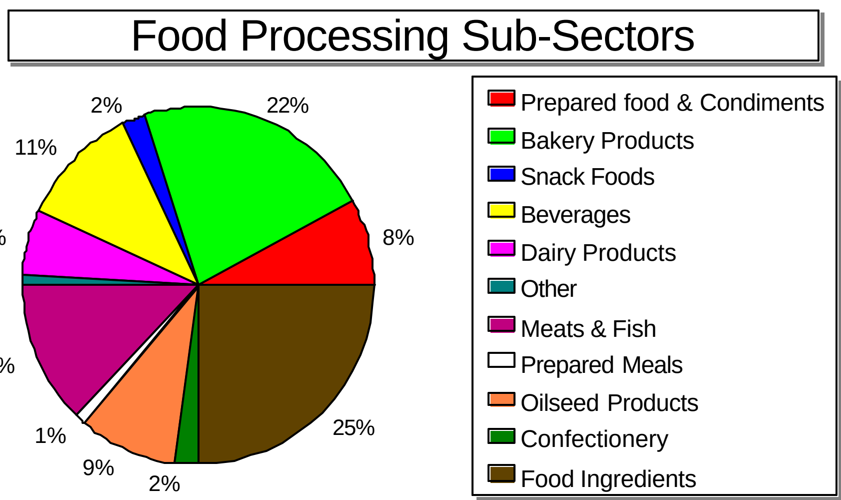
- Around 30% of Ecuadorians buy fruit, vegetables, meat and processed food at supermarkets and specialty food stores. The remaining population buy fruit and vegetables at public warehouses, and processed food at small stores.

- Supermarkets and commissaries import around 10% of their items from the United States, 90% of which are food and beverages.

- Gas station mini-marts tend to offer imported and specialty products such as cigarettes, liquors, snacks (sweet and salty), and soft drinks.

- The best way to enter this sector is through direct contact with supermarkets and commissaries, or using local importers and distributors which usually ask for an exclusive representation.

- Sales usually increase during special holidays such as Mother's day, Christmas, Carnival, San Valentine's day, and Father's day, although the vacation season (June-September) is usually the best in sales for most consumer-ready products. Imported products are demanded principally because of their special packaging, easy usage and higher quality.



- The number of supermarkets and self-service stores are increasing, as people turn to these stores in order to get a wider variety of products in a better organized and cleaner shopping environment. Such stores offer the best sale opportunities for imported products.

Food Processing Sector:

- Ecuador’s most important food processing sub-sectors are those related to food ingredients, bakery products, meats & fish, and beverages.

- The size of the food processing market in Ecuador was $2.4 billion in 1997 and remained constant during 1998, but it shrank 9% during 1999. As economic stability returns, this sector is starting to grow again.

- As a result of economic turmoil and falling production in 1999 imports decreased significatively, but continued to come principally from Colombia, Chile, the United States and Argentina.

- Some EU contries are gaining market share in Ecuador's food processing industry: Germany, the United Kingdom, and the Netherlands.

- According to import statistics, most demanded products are: milk powder, processed sugars, sugar ingredients, juice mixtures and concentrates, colorants, flour, cereals, ferments, emulsions and extracts.

HRI Food Service Sector:

- Total sales of the HRI Food Service Sector were $500 million in 1998, and its participation on Ecuador's GDP was aroud 15%. While in 1999 this sector decreed in 8%, it has grown by 2.3% during 2000.

- The growth of tourism represent a key opportunity for the HRI sector. Approximately 600,000 tourists visited Ecuador during year 2000, surpassing the estimates for such period.

- There are several international hotel chains such as: Hilton, Marriott, Sheraton, Swissotel, Radisson, Holiday Inn, Howard Johnson and others, which import food and beverage products for their restaurants and food service areas. Hotels import around 10% of their food and beverage items. Their sales reached $136 million in 1998.

- Most restaurants are supplied by local producers and importers, thus they do not import directly. However, some large restaurants do import, especially meats and wine. Large hotel chains such as Hilton import through agents in the country of origin. Restaurant sales reached $311 million in 1998.

- Imported products by the HRI sector with the greatest demand are: meats, oysters, shell-fish, salmon, mussels, squid, wine, beer, liquor, olive oil, truffles, canned tomatoes, confectioneries, sausages, pre-cooked frozen potatoes, cheese products, mushrooms and spices.

- Food franchises currently present in Ecuador include: Pizza Hut, Burger King, Mc Donald's, Dunkin Donuts, Domino's Pizza, KFC, Baskin 31 Robbins, Subway, Taco Bell, TGI Fridays, Kenny Rogers Roasters, Pollo Campero, American Deli, Crepes & Waffles, Tropi Burger, Pollo Tropical, Little Caesars and others. Most are US franchises, and although 1999 was a difficult year for most, they are now sharply recovering their sales levels of 1998 ($60 million).

- The majority of products used by franchises are imported. These include: mayonnaise, ketchup, mustard, beef, poultry, spices, special formulas, cheese, pepperoni, bacon, olives, corn oil, frozen french fries, ice cream and yogurt mixes. However, most of these products are supplied by each franchisee's world supplier.

- The stiffest problem facing HRI related products is a growing black market. Smuggling and other non-fair trade practices imposed by certain government institutions are wiping out legal importers. A probable solution is making direct contact between producers, authorized representatives/ distributors and the importer, without the participation of unlegal intermediaries and consolidators.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

Based on import statistics, as well as consumer preferences and Ecuadorian market trends, the products offering outstanding U.S. export opportunities include:

- Fresh fruit: apples, peaches, pears and grapes
- Snack foods (sweet and salty snacks)
- Pet foods (dog and cat food)
- Poultry
- Wine, beer and beverages.
- Processed, canned vegetables (including french fries)
- Milk powder and dairy products
- Breakfast cereals and pancake mixes
- Canned fruits, dried fruit and nuts
- Salsas and spices
- Meat products
- Fruit and vegetable bases and escences
- Confectionery and chocolate candies
- Baby foods
- Nursery products

Sources: Central Bank of Ecuador
Private companies

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

For more information about this report and to let us know about your comments or suggestions, please contact:

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TABLE A

KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries ($Mil) / U.S. Market Share (%) (1999)	377	32
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%) (1999)	125	14
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%) (1999)	4	25
Total Population (Millions) / Annual Growth Rate (%)	12.6	1.9
Urban Population (Millions) / Annual Growth Rate (%)	8.1	2.9
Number of Major Metropolitan Areas	2	
Size of the Middle Class (Millions) / Growth Rate (%) [1]	2	1.5
Per Capita Gross Domestic Product (U.S. Dollars)	1,110	
Unemployment Rate (%)	14	
Per Capita Food Expenditures (U.S. Dollars)	65	

Percent of Female Population Employed	33
Exchange Rate [2]	U.S. Dollar

[1] / Middle Class defined as families with yearly incomes ranging from $6,000 to $18,000.
[2] / Ecuador has a Dollarized economy, in which the U.S. Dollar is the authorized currency.

Sources: United Nations Trade Database
Central Bank of Ecuador
National Institute of Statistics, Ecuador

TABLE B
CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

Ecuador Imports

(In Millions of Dollars)

	Imports from the World			Imports from the U.S.			U.S Market Share		
	1997	**1998**	**1999**	**1997**	**1998**	**1999**	**1997**	**1998**	**1999**
CONSUMER-ORIENTED AGRICULTURAL TOTAL	177	236	125	30	35	18	17	15	14
Snack Foods (Excl. Nuts)	19	25	15	2	2	1	11	9	7
Breakfast Cereals & Pancake Mix	3	3	2	1	1	1	20	33	27
Red Meats, Fresh/Chilled/Frozen	2	4	1	1	1	1	18	13	17
Red Meats, Prepared/Preserved	1	1	1	1	1	1	67	81	83
Poultry Meat	2	2	1	2	2	1	89	84	85
Dairy Products (Excl. Cheese)	14	20	7	3	4	3	19	22	35
Cheese	1	1	1	1	1	1	82	27	57
Eggs & Products	1	3	1	1	1	1	61	8	98
Fresh Fruit	19	43	14	4	4	1	21	9	9
Fresh Vegetables	1	3	4	1	1	1	60	11	5
Processed Fruit & Vegetables	12	13	7	3	3	1	21	20	18
Fruit & Vegetable Juices	2	2	1	2	1	1	66	42	26
Tree Nuts	1	1	1	1	1	1	58	53	48
Wine & Beer	7	9	4	1	2	1	17	17	8
Nursery Products & Cut Flowers	27	26	15	3	3	2	10	11	12
Pet Foods (Dog & Cat Food)	2	3	2	1	2	1	75	77	52
Other Consumer-Oriented Products	63	78	49	6	9	4	10	11	9
FISH & SEAFOOD PRODUCTS	2	13	4	1	1	1	4	1	1
Salmon	1	1	1	1	1	1	5	0	2
Surimi	0	1	1	0	1	0	0	100	0
Crustaceans	1	3	1	1	1	1	1	1	1
Groundfish & Flatfish	1	1	1	1	0	1	11	0	2
Molluscs	1	1	1	1	1	1	54	13	21
Other Fishery Products	1	10	3	1	1	1	5	0	1
AGRICULTURAL PRODUCTS TOTAL	492	711	371	181	205	121	37	29	33
AGRICULTURAL, FISH & FORESTRY TOTAL	498	731	377	182	206	122	37	28	32

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C

TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS

CONSUMER-ORIENTED AGRICULTURAL TOTAL
Reporting Country: Ecuador
Top 15 Suppliers Ranking

	IMPORTS (Thousands of Dollars)		
	1997	**1998**	**1999**
Chile	57,318	85,669	43,771
Colombia	40,375	45,209	28,865
United States	29,650	35,230	17,810
Netherlands	14,925	15,866	7,200
Israel	3,370	4,764	4,036
Venezuela	3,954	7,380	3,032
Peru	1,334	11,433	2,483
Germany	4,000	2,340	1,944
China (Peoples Republic of)	229	1,150	1,852
Argentina	1,648	3,928	1,592
Italy	2,360	1,968	1,560
Sri Lanka	2,026	1,463	1,347
Spain	3,785	3,123	1,182
Mexico	1,758	1,757	1,052
Syria	243	590	763
Other	10,476	14,561	6,326
World	177,454	236,457	124,833

FISH & SEAFOOD PRODUCTS
Reporting Country: Ecuador
Top 15 Suppliers Ranking

	IMPORTS (Thousands of Dollars)		
	1997	**1998**	**1999**
Colombia	474	6,662	2,730
Panama	523	2,263	389
Chile	272	372	238
Thailand	0	2,182	213
Peru	2	847	181
Spain	41	53	88
United States	81	92	41
Uruguay	0	51	25
France	2	165	14
Jamaica	0	0	5
Areas NES	0	37	5
Italy	4	1	4
Hong Kong	0	0	3
Russian Federation	0	0	3
Argentina	0	70	2
Other	495	373	5
World	1,899	13,170	3,947

Source: United Nations Statistics Division